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5 Nov. 1986USSR: COST OF EMPIRE

We estimate that the gross value of Soviet economic and military assistance has fallen from its peak level of \$31.7 billion in 1981 to \$19.7 billion by year-end 1985 (see table). Of this amount, economic assistance dropped from \$21.8 billion in 1981 to just \$10 billion in 1985, primarily due to the reduction in implicit oil subsidies as the price charged by the USSR reached world levels in 1984¹. Most of the economic assistance currently goes to the less developed countries (LDCs), with Cuba and Vietnam receiving about \$5.9 billion of the \$8.7 directed to the LDCs. We estimate Soviet military assistance to the LDCs (both Communist and non-Communist) at \$9.7 billion in 1985--roughly the same level as in 1981 but down from the \$12 billion annual average recorded in 1982-84. Taking into account payments made to Moscow for its support--particularly from the USSR's lucrative arms sales program--the net value of Soviet economic and military assistance was an estimated \$14.2 billion in 1985 compared with \$23.8 billion in 1981. []

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The USSR uses economic and military assistance to support its allies and clients as well as to expand its presence and influence in the less developed countries (LDCs). Much of Moscow's assistance consists of traditional economic and military

1. The price Moscow charges its Communist clients for oil is based on the average price for the preceding five years. Thus, the current Soviet price is now about 50 percent higher than world market levels, resulting in an implicit subsidy to the USSR this year. []

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[redacted]

aid. This aid--primarily in the form of favorable Soviet credits to finance deliveries to the recipient countries--reflects the actual transfer of resources on a gross basis. The terms of this assistance varies from country to country, with the most generous support going to the Communist LDC's. Credits to these countries carry terms of up to 25 years for repayment, grace periods for as long as 10 years, and interest rates of 0 to 4 percent; debts are frequently rescheduled and, on occasion, even written off. Military deliveries are often provided free of charge. Credits to non-Communist LDC's, on the other hand, are much less generous, carrying terms of up to 12 years for repayments at interest of 2 to 8 percent and grace periods usually 3 years or less. Military sales to oil-producing states in the Middle East have generally been on a cash basis with prices comparable to similar Western equipment. [redacted]

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About 20 percent of estimated Soviet aid in 1985 consisted of trade subsidies, resulting from concessionary pricing policies in Soviet trade with other Communist countries. These subsidies--measured as the difference between Soviet prices and world prices--accounted for as much as 42 percent of total Soviet assistance in the early 1980s, when the world price of oil was high and the Soviet price was low. At present, sugar purchases from Cuba compromise the bulk of these subsidies. Trade subsidies represent an opportunity cost to Moscow, i.e. the amount that Moscow could have earned on its exports to or saved

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on its imports from these countries had world prices prevailed.

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The bulk of Soviet economic assistance now goes to the Communist LDC's, with Cuba by far the largest single recipient. Moscow's policy vis-a-vis these countries is to provide them with sufficient trade and aid to keep their economies viable. In contrast, Soviet assistance to Eastern Europe has taken the form of easing the adjustment for these countries to changing world prices. As a result, Soviet assistance to Eastern Europe fell from a peak of \$14.1 billion in 1981 to just \$1.3 billion last year as trade subsidies disappeared and most countries reduced their trade deficits with Moscow. Soviet aid to the non-Communist LDC's accounted for only 14 percent of Soviet economic aid. Most Soviet military assistance, however, goes to these countries--accounting for 85 percent of total arms deliveries to the LDC's in 1985. [REDACTED]

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USSR: Structure of Economic and Military Assistance**(billion \$)**

	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Economic Assistance	5.0	19.1	21.8	17.2	11.6	10.7	10.0
Eastern Europe	2.6	12.5	14.1	9.0	3.8	2.4	1.3
Surpluses	0.8	2.8	4.4	2.7	2.2	2.4	1.3
Subsidies	1.8	9.7	9.7	6.3	1.6	0	0
Communist LDC's	1.9	5.8	6.8	7.0	6.4	6.7	7.3
Economic Aid	.8	2.4	3.2	3.1	3.2	3.6	3.8
Subsidies	1.1	3.4	3.6	3.9	3.2	3.1	3.5
Non-Communist LDC's	0.5	0.8	0.9	1.2	1.4	1.6	1.4
of which grants	neg	0.3	0.2	0.2	0.3	0.2	0.2
Military Assistance	3.0	8.9	9.9	12.6	12.0	11.4	9.7
Non-Communist							
LDC's (c.i.f.)	2.8	7.0	8.4	10.5	10.4	9.8	8.3
Communist LDC's	0.2	1.9	1.5	2.1	1.6	1.6	1.4
Total Gross Assistance	8.0	28.0	31.7	29.8	23.6	22.1	19.7
Estimated Payments	2.6	6.5	7.9	8.7	7.6	6.6	5.5
Net Assistance	5.4	21.5	23.8	21.1	16.0	15.5	14.2

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